



VIRGINIA MILITARY INSTITUTE

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

We have audited the basic financial statements of Virginia Military Institute as of and for the year ended June 30, 2018, and issued our report thereon, dated May 6, 2019. Our report, included in the Institute's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the Institute's website at www.vmi.edu. Our audit found:

- the financial statements are presented fairly, in all material respects;
- an internal control finding requiring management's attention; however, we do not consider the finding to be a material weakness; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Improve Controls over Fixed Asset Reporting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Virginia Military Institute (Institute) personnel did not properly monitor capital assets and/or complete required surplus documentation. Institute personnel did not record three assets as surplus and could not locate one asset. The underlying cause of the issue is departments not providing complete surplus documentation to the Comptroller's Office. Therefore, the assets remained active within the Institute fixed asset system rather than removed as required.

In accordance with Topic 30705 (Surplus Property Management) of the Commonwealth Accounting Policies and Procedures Manual, assets must be reclassified to surplus when the agency has determined that the asset has served its useful purpose, is no longer functional, cannot be repaired or improved, or is not needed within the agency. As noted in Topic 30805, capital asset items, which are unaccounted for following verification of the inventory report by physical inventory, must be removed from the report.

Insufficient surplus documentation increases the risk of misappropriation of property and may contribute to the inclusion of inaccurate information in the fixed asset system and financial statements. However, proper and effective surplus documentation should result in an accurate accounting of equipment and indicate the reliability of the system of control for equipment disposals.

Management should evaluate current procedures for tracking surplus equipment and completing required documentation in accordance with state requirements. Management should ensure that departmental asset custodians complete and provide the Comptroller's Office with timely surplus documentation. Management should remove all capital assets deemed no longer in the possession of the Institute to ensure accuracy within the fixed asset system and annual financial statements.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 6, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of the Institute as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Virginia Military Institute's basic financial statements and have issued our report thereon dated May 6, 2019. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the Institute, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting entitled "Improve Controls over Fixed Asset Reporting," which is described in the section titled "Internal Control Findings and Recommendations," that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Virginia Military Institute's Response to Findings

We discussed this report with management at an exit conference held on April 19, 2019. The Institute's response to the finding identified in our audit is described in the accompanying section titled "Institute's Response." The Institute's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AUDITOR OF PUBLIC ACCOUNTS

JRQ/vks

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7 June 2019

Martha S. Mavredes, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Re: Improve Controls Over Monitoring Fixed Assets

Dear Ms. Mavredes:

The Virginia Military Institute has reviewed the Internal Control and Compliance Finding denoted within the Auditor of Public Accounts (APA) Report on Audit for the fiscal year ending 30 June 2018, discussed it with the assigned APA Audit Team during the exit conference, and would like to thank you for the opportunity to respond accordingly.

In summation, please know that VMI acknowledges and concurs with the recommendations provided therein and has implemented, or is in the process of implementing, corrective actions necessary to enhance applicable processes and procedures.

Very Respectfully,



Kevin A. Ryan, Comptroller



VIRGINIA MILITARY INSTITUTE

As of June 30, 2018

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